

**REPORT OF
TARGET MARKET CONDUCT
EXAMINATION
OF
IDS LIFE INSURANCE COMPANY
MINNEAPOLIS, MINNESOTA
BY
THE OFFICE OF THE INSURANCE
COMMISSIONER
STATE OF WASHINGTON
AS OF
DECEMBER 31, 1996**

November 22, 2000

Honorable Deborah Senn
Insurance Commissioner

State of Washington

Insurance Building

P. O. Box 40255

Olympia, Washington 98504-0255

Dear Commissioner Senn:

Pursuant to your instructions and in compliance with the provisions of RCW 48.03.010 et seq. and procedures promulgated by the National Association of Insurance Commissioners and the Office of Insurance Commissioner an examination of the market conduct activities has been conducted of:

IDS Life Insurance Company

IDS Tower 10

Minneapolis, Minnesota 55440-0010

The report thereon, as of December 31, 1996, is herein respectfully submitted.

TABLE OF CONTENTS

SALUTATION

CERTIFICATION

FOREWORD 1

SCOPE 1

HISTORY, TERRITORY OF OPERATIONS,

MANAGEMENT 3

MARKETING & SALES 4

AGENT LICENSING 6

COMPLAINTS 7

REPLACEMENTS 8

INSTRUCTIONS 10

RECOMMENDATIONS 11

EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with the Office of the Insurance Commissioner and the National Association of Insurance Commissioners market conduct examination procedures.

James R. Montgomery III, AIE, FLMI, MAAA, Robbie Kriplean, CIE, AIRC, and Charles F. Taylor, CIE, FLMI, AIRC (Examiner-in-Charge) participated in this examination.

I certify that the foregoing is the report of the examination, that I reviewed this report in conjunction with pertinent examination work papers, that this report is in accordance with the provisions for such reports prescribed by the Office of the Insurance Commissioner, and this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

FOREWORD

This target market conduct examination report is by exception and additional practices, procedures and files subject to review during the examination were omitted from the report if no improprieties were indicated. Throughout the report, where cited, RCW refers to the Revised Code of Washington and WAC refers to the Washington Administrative Code.

SCOPE

SITUS

This examination was a Level Two Target Market Conduct Examination conducted primarily off-site with a visit to the company's home office in Minneapolis, Minnesota.

TIME FRAME

The examination covered the company's operations for the period January 1, 1992 through December 31, 1996.

METHODOLOGY

Sampling Standards

In general the sample for each test utilized in this examination falls within the following guidelines:

92% Confidence Level

+/- 5% Tolerance

Regulatory Standards

Samples are tested for compliance with standards established by the OIC. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as "met". The standard for agent licensing and appointment is not met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

MATTERS EXAMINED

The focus of the examination was the life insurance and annuity business, which

encompassed the following areas of operations:

Marketing and sales practices Agent licensing

Complaints Replacement activity

HISTORY, TERRITORY OF OPERATIONS, MANAGEMENT

IDS Life Insurance Company (IDS) was originally incorporated in Minnesota on August 7, 1957 as Investors Syndicate Life Insurance and Annuity Company. The Company changed its name to IDS Life Insurance Company in 1973. The Company is owned by American Express Financial Corporation which in turn is wholly owned by American Express Company, the ultimate parent.

The Company is licensed in the District of Columbia and all states except New York.

Both variable and fixed products are marketed through a captive agent force and American Express Financial Advisors, an affiliated broker-dealer. Products are organized into three groups: Risk Management Products (insurance), Assured Assets (fixed rate products including fixed annuities) and Variable Assets (variable products).

IDS is governed by a board of directors comprised of the following members:

Donald R. Hubers

Paul F. Kolkman

James A. Mitchell

Stuart A. Sedlacek

Richard W. Kling

Paula R. Meyer

Barry J. Murphy

MARKETING & SALES

The examiners reviewed the Company's sales and advertising materials which included bulletins to agents, brochures, illustrations, agents' kits, agents' training materials and

compensation agreements. The materials reviewed were in compliance with Washington advertising regulation with the following exception:

The examiners reviewed the Statement of Benefit Information that was included in the policy delivery package for all new policies. The Statement of Benefit Information was found to be in compliance with Washington State statutes and regulation with the exception of the form used with policies issued in connection with the company's Re-Entry Program. This was a program available to annuity policyowners from January 15, 1996 through April 30, 1996. This program allowed clients who owned certain fixed annuity contracts with a 2% or lower surrender charge the opportunity to move to a new annuity product (FRA-VP) which provided a 1% first year bonus interest rate, then reverted to the interest rate being paid on the same type of annuity to all other owners.

The Statement of Benefit Information produced for the Re-Entry policies reflected the 1% interest rate bonus for the life of the policy rather than for one year only. The Statement of Benefit Information is intended to be a snapshot of policy performance over the life of the contract. As the additional 1% interest is only to be paid for one year, the company should have used the current interest rate plus 1% for the first year and dropped the interest rate to the current rate after the first year.

The company did not use sales illustrations to show policyowners the projected annuity values on the new contract. Therefore, it appears that the policyowner would reasonably be expected to rely on the Statement of Benefit Information in making their decision to keep or return the new policy during the 30 day free look period. The information on the Statement of Benefit Information would need to accurately reflect the known projected values based on the information available at the time of issue.

The examiners did find that the company adequately disclosed the fact that interest rates are not guaranteed after the first year and that actual values will be affected by changes in interest rate. In addition, the Statement of Benefit Information accurately reflects the guaranteed annuity values.

Subsequent Event: The Company has changed their programs so that all known factors at the time the Statement of Benefit Information is generated are taken into consideration when printing this form.

Standard # 15 Advertising materials comply with Washington Advertising Regulations.

Results: The company met this standard.

AGENT LICENSING

The examiners requested diskettes from the Company as follows:

1. Diskette one contained all non-tax qualified annuities comprised of all business issued in Washington 1/1/92 through 12/31/96 (6,993 records).
2. Diskette two contained all tax qualified annuity contracts issued in Washington 1/1/92 through 12/31/96 (8,859 records).
3. Diskette three contained all life insurance policies issued in Washington 1/1/92 through 12/31/96 (6,366 records).

These diskettes contained policy data including policy number, customer name, product type, agent's name and replacement code (internal, external, or not replaced).

The data was sorted by agent and one hundred (100) agents were randomly selected for review by the examiners. After our initial filter of the business associated with the sampled agents and after discussions with Company officials it became apparent that some of the agents shown on the diskettes were the current (servicing) agents and not necessarily the writing agents. The examiners then requested that the Company furnish copies of policy applications and appointment certificates to verify that the writing agent was appointed.

The review did not produce any violations of Washington statutes concerning agent licensing.

Standard # 16 Agents representing the company have been licensed and appointed prior to soliciting applications on behalf of the company. (RCW 48.17.010 RCW 48.17.060)

Sample Size: 100

Not in Compliance: 0 agents Ratio: 0%

Results: The company met this standard.

COMPLAINTS

The examiners conducted an on-site (home office) review of all the life insurance and annuity complaints received by the Company during the period 1/1/92 through 12/31/96. The total number of complaints by year were as follows:

1992	1993	1994	1995	1996	TOTAL
8	5	11	12	14	50

Out of the total of fifty (50) complaints for the five (5) examination years, ten (10) involved some allegation as to the clients' not being aware of the charges upon cash surrender of the policy. Although it is the Company's policy to obtain a signed statement from the applicants acknowledging their understanding of the surrender charges, it is difficult to tell what a particular agent may or may not have told an applicant about the surrender charges. The examiners recommend that the Company remind their agents on a periodic basis of the importance of explaining these charges to applicants. The other complaints were varied and did not indicate any type of pattern.

The examiners' overall analysis of the Company's complaint process is that it is timely and thorough and that management is routinely informed of all pertinent data such as the number and nature of complaints including any trends.

Standard # 7 The company has and follows written complaint handling procedures.

Results: The company met this standard.

Standard # 8 The company monitors complaint records for trends, and has a formal procedure for reporting trends to management.

Results: The company met this standard.

REPLACEMENTS

The Company's replacement practices and procedures were reviewed in order to determine compliance with WAC 284-23-400 through WAC 284-23-485. There were two primary objectives to this section of the examination:

1. Review records to determine the extent of replacement activity, both internal and external, associated with a policy during the examination period.
2. Review records to determine the existing policies financing new policies issued during the examination period. This financing could be accomplished through policy loans on existing policies, surrender of existing policies, exercising other non-

forfeiture options on existing policies or partial surrenders of existing policies.

A sample of fifty-four (54) life policy files, population 21,513, was drawn from the following data source: "Policies issued during the examination period that had an existing policy prior to the start of the examination period". The review did not reveal any discrepancies.

During June 1995, the Company discontinued requiring replacement notices for variable annuities in error and for reasons not clear to Company officials. During July 1996 the Company discontinued requiring a replacement notice for all annuity to annuity replacements. According to Company officials the errors with respect to replacement of annuities were based on a typographical error contained in the NILS publication of Washington Regulations and probably a misinterpretation of the Washington replacement registered contract exception. During early 1998 the Company discovered these errors and took steps to correct them. When this examination was called, the Company advised the OIC of the situation with replacement requirements and advised that the OIC examiners would not find replacement forms or notifications in the files.

The current replacement notice procedures now cover life and annuity replacements, variable and non-variable products and internal as well as external replacements.

Based on the above, that replacement notices were discontinued for fixed annuity business in July 1996 and for variable annuity business were discontinued in June 1995, the examiners and the Company agreed that a reasonable estimate of violations appears to be one-fifth (one year) of annuity replacements. Since there were 884 replacements (excluding the 1,646 re-entry contracts) one-fifth of 884 (176) plus the 1,646 re-entries equals a total of 1,822 annuity violations.

The Company provided it's own version of a disclosure form to the re-entry annuitants at various stages of the re-entry program. In addition, the application forms in use during the examination period contained the appropriate replacement questions and a short disclosure about replacement. Although neither form was an exact copy of the form appearing as WAC 284-23-485, they do contain portions of the disclosure information required by this section of the WAC.

Because the Company did not have any violations of the replacement regulations for life insurance policies, it is reasonable to assume that the violations found in the annuity files is the result of misinformation the Company received in the NILS publication.

Standard # 11 Replacement procedures are in writing and are consistent with the Washington Replacement Regulations.

Life files sampled: 54

Not in compliance: 0

Error ratio: 0%

Total number of annuities issued 1/1/92 – 12/31/96: 15,851

Total number of replacements 2,530

Estimated total violations 1,822

Results: The company met this standard for life policies.

The company did not meet this standard for annuity policies.

The following table shows the extent of replacements during the examination period:

	# Issued	External	%	Internal	%
Non-qualified annuities	6,993	374	5.3%	135	1.9%
Qualified annuities	8,858	362	4.1%	13	.1%
Life insurance	6,365	1,532	24.1%	1427	22.4%

INSTRUCTIONS

1. The Company is instructed to comply with all sections of WAC 284-23-400, Washington Replacement Regulations. If there are any changes noted through any source, the Company is instructed to verify those changes with the Office of the Insurance Commissioner before making any procedural changes.

RECOMMENDATIONS

1. It is highly recommended that any changes to Washington laws that are noted in commercially-produced manuals of laws should be confirmed. The Company should review the laws as published by the State of Washington. This information is available in hard copy or can be accessed electronically via the official web sites of the State and the Office of the Insurance Commissioner.
2. It was noted during the examination that many of the complaints were the result of surrender charges not being explained to the policyowner at the time of policy issue. It is recommended that the company's efforts in training agents to insure that the disclosure information is thoroughly explained to prospective and new policyowners.